

Message Text

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FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 7258

C O N F I D E N T I A L SECTION 01 OF 06 GENEVA 04040

EXDIS

FOR UNDERSECRETARY COOPER FROM AMB VANDEN HEUVEL

E.O. 11652: GDS
TAGS: UNCTAD, ETRD
SUBJECT: UNCTAD - COMMON FUND

1. I HAVE PREPARED THE FOLLOWING DRAFT REPORT ON THE
INFORMAL MEETING ON THE COMMON FUND LAST FRIDAY NIGHT
AND SATURDAY. I ASSUME YOU WILL WANT TO CHECK THE
DRAFT AGAINST YOUR OWN RECOLLECTIONS BEFORE MAKING
SUCH DISTRIBUTION YOU DEEM APPROPRIATE. BEGIN TEXT:

2. AN INFORMAL MEETING OF INTERESTED PARTIES WAS AR-
RANGED BY GAMANI COREA, SECRETARY GENERAL, UNCTAD, FOR
THE EVENING OF FRIDAY, MARCH 10, 1978 AT THE
RESIDENCE OF AMBASSADOR VANDEN HEUVEL FOR THE PURPOSE
OF DISCUSSING THE PROSPECTS AND POSSIBILITIES OF
NEGOTIATING A COMMON FUND (CF). THE UNDERSTANDING AMONG
THOSE ATTENDING WAS THAT THE MEETING WAS UNOFFICIAL AND
THAT THE EXPRESSIONS BY THE INDIVIDUAL PARTICIPANTS
WOULD NOT BE INTERPRETED AS GOVERNMENTAL VIEWPOINTS.
THE HOPE WAS THAT AN INFORMAL EXCHANGE OF OPINIONS,
IDEAS AND ATTITUDES WOULD ENHANCE THE UNDERSTANDING OF
THOSE WHO ARE CONCERNED WITH THE CREATION OF A COMMON
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FUND.

3. THE PARTICIPANTS WERE: GAMANI COREA, SEC GEN, UNCTAD;
MC INTYRE, HEAD COMMODITIES DIV., UNCTAD; FROMENT-MEURICE,
FRANCE; STEELE, UK; BARRAS, UK; STEEG, FRG; STOLTENBERG,
NORWAY; MIYAZAKI, JAPAN; CHEYSSON, EC COMMISSION;
ADENIJI, NIGERIA; MLOKA, TANZANIA; MATTAR, JAMAICA;

KUMAR, INDIA; DE ALWIS, SRI LANKA; ALATAS, INDONESIA;
SEKULIC, YUGOSLAVIA; KLINKERBERGH, NETHERLANDS; UNDER
SECRETARY COOPER, US; AND AMBASSADOR VANDEN HEUVEL, US.

4. COREA, WHO CONVENED THE MEETING AND SELECTED AND
INVITED THE PARTICIPANTS, SAID THAT THERE WERE FOUR
ISSUES THAT SHOULD BE DISCUSSED:

(1) FUNCTIONS OF THE CF, (2) HOW TO DEAL WITH "OTHER
MEASURES" (OM), (3) CAPITALIZATION OF THE CF AND (4)
IMPLEMENTATION OF THE NEW INTERNATIONAL ECONOMIC ORDER
(NIEO) THROUGH THE CF. ALATAS SAID IT WAS INCONCEIVABLE
THAT THE GROUP 77 (G-77) COULD ACCEPT A CF WITHOUT A
SECOND WINDOW TO FINANCE "OTHER MEASURES". IN REFERENCE
TO THE CAPITAL STRUCTURE OF THE CF A COMPROMISE IS BOTH
NEEDED AND POSSIBLE. THE CF SHOULD ALSO REFLECT IN ITS
DIRECTORATE GREATER PARTICIPATION FOR THE G-77 COUNTRIES
CONSISTENT WITH THE DIRECTIVES OF THE NIEO. IN TERMS
OF FINANCING, IT IS IN THE GREATEST INTEREST OF ALL
PARTIES TO BORROW (AGAINST BUFFER STOCKS) RATHER THAN
RELY ON GOVERNMENTAL CONTRIBUTIONS. AMONG THE QUESTIONS
THAT RELATE TO THE FINANCING PROBLEMS ARE:

WHAT SHOULD THE APPROPRIATE CAPITAL/BORROWING RATE BE?
WHAT ARE THE BEST INSTRUMENTS FOR BORROWING?
WOULD THE INSTRUMENTS EMANATE FROM THE CF
OR THROUGH THE ICA'S OR IN WHAT MANNER?

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5. FROMENT-MEURICE SOUGHT TO CLARIFY THE G-77 PROPOSAL
FOR FINANCING SAYING THAT HIS UNDERSTANDING WAS THAT IT
INVOLVED THREE SOURCES OF CONTRIBUTIONS: (1) A UNIVERSAL
ASSESSMENT REPRESENTING A MEMBERSHIP FEE PROBABLY
APPROXIMATING \$250,000 PER COUNTRY; (2) ASSESSED CON-
TRIBUTIONS REFLECTING THE UN PERCENTAGE FORMULA CON-
TRIBUTION; (3) TRADE SHARES. HE UNDERSTOOD THAT THE
G-77 WERE PREPARED TO ACCEPT A CONCEPT REFLECTING ICA
SHARES IN LIEU OF "TRADE SHARES". ALATAS INDICATED THAT
THE G-77 WERE PREPARED TO LOOK AT THIS POSSIBILITY
BUT THERE WAS CERTAINLY NO A PRIORI COMMITMENT.

6. MATTAR SAID THAT THE UNIVERSALITY OF MEMBERSHIP
FOR THE CF WAS A VERY IMPORTANT OBJECTIVE FOR THE G-77
WHICH IMPLIED ACCEPTANCE OF THE PRINCIPLE OF ASSESSMENT
OF CONTRIBUTIONS. FROMENT-MEURICE REPLIED BY ASKING
WHETHER THE G-77 WERE MORE CONCERNED IN STRESSING THE
POLITICAL POINT OF UNIVERSALITY OF MEMBERSHIP OR THE
SUBSTANTIVE POINT OF WHAT WAS THE BEST WAY TO FIND THE
NECESSARY RESOURCES TO MAKE THE CF SUCCESSFUL. MATTAR
REPLIED THAT IF WE WERE SIMPLY TALKING ABOUT INTER-
NATIONAL COMMODITY AGREEMENTS (ICA'S) AND A MEMBERSHIP

THAT WOULD REFLECT THE ICAS THEN AN INSTITUTION LIKE
THE COMMON FUND WAS NOT NECESSARY. UNDERSECRETARY COOPER
RAISED THE QUESTION OF WHAT WOULD HAPPEN TO UNIVERSALITY
IF TWENTY SMALL COUNTRIES DO NOT JOIN THE CF BECAUSE IT
COSTS TOO MUCH IN TERMS OF THEIR INTERESTS. ALATAS
REPLIED THAT UNIVERSALITY WAS IMPORTANT AS A POLITICAL
OBJECTIVE BUT THE ECONOMIC OBJECTIVES OF THE CF WERE
OBVIOUSLY CRUCIAL. HE INDICATED THAT UNIVERSAL MEMBER-
SHIP WOULD ENABLE COUNTRIES TO PAY SMALLER AMOUNTS IN

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O 151821Z MAR 78
FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 7259

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FOR UNDERSECRETARY COOPER FROM AMB VANDEN HEUVEL

ASSESSMENTS AND THAT A COMMITMENT TO UNIVERSALITY WOULD
HELP SIGNIFICANTLY IN PRESSURING THE COM-
MUNIST COUNTRIES TO BE MEMBERS OF THE ICA'S AND THE CF.
UNDERSECRETARY COOPER ASKED WHETHER UNIVERSALITY WOULD
PERMIT BRAZIL, FOR EXAMPLE, TO PAY LESS BECAUSE TEN
SMALLER COUNTRIES LIKE PARAGUAY WERE PAYING MORE.

7. A DISCUSSION THEN ENSUED AS TO WHETHER COUNTRIES
WOULD PAY MORE UNDER THE GROUP B PROPOSAL THAN UNDER THE
G-77 PROPOSAL. ALATAS ARGUED THAT THE G-77 PROPOSAL
WOULD BE A LESSER BURDEN ON ALL MEMBERS OF THE CF
THROUGH THE SAVINGS THAT WOULD RESULT BECAUSE OF MORE
EFFECTIVE BORROWING PROCEDURES AVAILABLE TO A CF THAN
TO INDIVIDUAL'S ICAS. HE INDICATED THAT HE WAS THINKING
IN TERMS OF A BORROWING RATIO OF 1:2. ALATAS STATED
THAT EQUALITY IS PURCHASED IN EQUAL CONTRIBUTIONS AND
UNIVERSALITY OF MEMBERSHIP; JUSTICE IS PURCHASED BY
CONTRIBUTIONS REFLECTING A MEMBER'S ABILITY TO PAY; AND
EQUITY IS PURCHASED THROUGH MEMBERS CON-

TRIBUTIONS REFLECTING TRADE SHARES.

8. ALATAS THEN USED AN EXAMPLE OF A PROPOSED JUTE ICA
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TO ILLUSTRATE WHAT HE VIEWED AS A WEAKNESS IN THE GROUP B PROPOSAL. WITH JUTE, IT IS LIKELY THAT THERE WOULD BE THREE LLDC PRODUCING COUNTRIES AS OPPOSED TO FORTY WEALTHY CONSUMING COUNTRIES. IT WOULD NOT BE FAIR TO ALLOCATE THE MAXIMUM FINANCIAL REQUIREMENTS (MFR) EQUALLY TO THE PRODUCER/CONSUMER GROUP. THIS STATEMENT BY ALATAS INDICATED A MIS-UNDERSTANDING OF THE GROUP B PROPOSAL WHICH REPRESENTATIVES OF FRANCE, GREAT BRITAIN AND THE USA WERE QUICK TO POINT OUT. THEY SAID THAT THE GROUP B PROPOSAL DOES NOT MANDATE A 50/50 DIVISION BETWEEN THE PRODUCERS AND CONSUMERS, THAT THE CONTRIBUTIONS TO AN INDIVIDUAL ICA WILL DEPEND ON WHAT THAT ICA IS WORTH TO THE CONTRIBUTING COUNTRY, THAT THE PRINCIPLE SUPPORTED BY THE GROUP B PROPOSAL RELATED TO JOINT SHARING BY PRODUCERS AND CONSUMERS, NOT NECESSARILY EQUAL SHARING.

9. IN CLARIFYING THE GROUP B PROPOSAL FROMENT-MEURICE MADE THE ADDITIONAL POINT THAT GROUP B WOULD NOT ACCEPT TRADE SHARE FINANCING.

10. COREA RAISED THE QUESTION AS TO WHOM THE DIRECTORS AND MEMBERS OF THE COMMON FUND WOULD BE UNDER THE GROUP B PROPOSAL. UNDERSECRETARY COOPER REPLIED THAT PRESUMABLY THE DIRECTING MECHANISM SHOULD REFLECT THE REAL INTERESTS OF THE MEMBERS BUT HE POINTED OUT THAT NEITHER SIDE HAD SPENT MUCH TIME IN ANALYZING SYSTEMS FOR CONTROL OR VOTING MECHANISMS. A G-77 PARTICIPANT SUGGESTED A DIRECTORATE REFLECTING GROUP POLITICAL REALITIES. UNDERSECRETARY COOPER SAID IT WOULD BE A GREAT MISTAKE TO INSTITUTIONALIZE BLOC INTERESTS WITHIN THE CF RATHER THAN BY INDIVIDUAL COUNTRY MEMBERS. IF THE ORGANIZATION OF THE COMMON FUND REFLECTED BLOCS THAT WOULD BE A SEVERE BLOW TO THE PRINCIPLES OF UNIVERSALITY.

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AMB. VANDEN HEUVEL ASKED WHETHER THE G-77 PROPOSAL FOR UNIVERSALITY ENVISAGED THE PARTICIPATION OF COMMUNIST COUNTRIES WITHIN THE CF. ALATAS REPLIED AFFIRMATIVELY AND MADE THE FURTHER POINT THAT ACCEPTANCE OF THE G-77 PRINCIPLE OF UNIVERSALITY WOULD HELP BRING SIGNIFICANT POLITICAL PRESSURE THAT WOULD COMPEL THE COMMUNIST

COUNTRIES TO BE MEMBERS OF THE COMMON FUND.

11. FROMENT-MEURICE SAID THAT HE BELIEVES THAT THE BULK OF RESOURCES FROM THE COMMON FUND SHOULD COME FROM THE ICA'S. HE SUGGESTED THAT THERE WAS POSSIBLE LIMITED FLEXIBILITY IN THE GROUP B PROPOSAL IN TWO RESPECTS:

(1) CONSIDERATION OF A UNIVERSAL ASSESSMENT ON COUNTRIES RESEMBLING A MEMBERSHIP FEE THAT WOULD COVER START-UP COSTS AND WOULD BE OF A MODEST AMOUNT; (2) THE DEPOSIT RATIO WHICH IN FACT WOULD PROVIDE THE BULK OF CF RESOURCES. ALATAS SAID HE AGREED THAT WE SHOULD BE COMMITTED TO THE AUTONOMY OF THE ICA'S. HE ASKED WHETHER THE DEPOSITS WOULD BE MADE DIRECTLY TO THE CF OR TO THE ICA'S. SEVERAL PARTICIPANTS FROM GROUP B INDICATED THEY FELT THAT THIS WAS A TECHNICAL POINT THAT COULD BE WORKED OUT AS LONG AS EVERYONE UNDERSTOOD THAT THE DEPOSITS WERE TO BE CREDITED TO THE ACCOUNT OF THE INDIVIDUAL ICAS EVEN THOUGH THEY WERE MANAGED BY THE CF ITSELF THROUGH A COMMON ACCOUNT.

12. UNDERSECRETARY COOPER RAISED A HYPOTHETICAL EXAMPLE OF A CF COVERING FIVE ICAS, EACH OF WHICH HAD DEPOSITS TOTALLING ONE THIRD OF ITS MFR. THE POOLING OF THESE DEPOSITS WOULD RESULT IN SAVINGS SUBSTANTIAL ENOUGH SO THAT THE INDIVIDUAL DEPOSITS MIGHT BE REDUCED TO ONE QUARTER RATHER THAN ONE THIRD OF THE MFR. SEVERAL G-77 PARTICIPANTS OPINED THAT THEY HAD NOT UNDERSTOOD THIS POINT BUT SEEMED WILLING TO ACCEPT IT. UNDERSECRETARY COOPER INDICATED THAT HE DID NOT RULE OUT THE POS-

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FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 7260

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EXDIS

FOR UNDERSECRETARY COOPER FROM AMB VANDEN HEUVEL

SIBILITY OF DIRECT ASSESSED CONTRIBUTIONS BUT SUCH CONTRIBUTIONS WOULD HAVE TO HAVE A STRONG RATIONALE, I.E., THEY WOULD HAVE TO BE LIMITED TO ADMINISTRATIVE COSTS. HE SUGGESTED ALSO THAT AN APPROPRIATE SUBJECT FOR STUDY WOULD BE TO WHAT EXTENT A DIRECT EQUITY INVESTMENT IN THE CF WOULD IMPROVE ITS ACCESS TO THE FINANCIAL MARKETS. THE FIRST PHASE OF THE MEETING ADJOURNED AT 10:30 PM SINCE MANY OF THE PARTICIPANTS WERE OBLIGED TO RETURN TO THE UNCTAD MEETING ON IN-DEBTEDNESS.

13. SATURDAY, MARCH 11, THE PARTICIPANTS MET AGAIN AT 9:00 A.M. AT QUAKER HOUSE WITH THE UNDERSTANDING THAT THE DISCUSSIONS THAT MORNING WOULD BE FOCUSED ON THE "SECOND WINDOW".

14. UNDERSECRETARY COOPER BEGAN BY DISTINGUISHING BETWEEN "OTHER MEASURES" (OM'S) AND THE "SECOND WINDOW". HE SAID THAT OM'S IS AN OBJECTIVE WHEREAS THE SECOND WINDOW IS A PROCEDURE WHICH MIGHT OR MIGHT NOT BE USEFUL DEPENDING ON ITS DEFINITION. A GENERAL DEFINITION OF OM'S WOULD INCLUDE, (1) PRODUCT IMPROVEMENT FOR CONFIDENTIAL

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MARKETING PURPOSES, (2) IMPROVEMENT OF MARKETING TECHNIQUES, (3) IMPROVEMENTS IN THE PRODUCTION OF A COMMODITY AND, (4) DIVERSIFICATION OF PRODUCTS. THERE IS A MAJOR DISTINCTION THAT SEPARATES THE FIRST THREE OF THESE POINTS FROM THE FOURTH, NAMELY, THAT THE FOURTH (PRODUCT DIVERSIFICATION) FALLS WITHIN THE CATEGORY OF GENERAL DEVELOPMENT. THERE IS A GENUINE GAP IN INTERNATIONAL MECHANISMS FOR THE APPROPRIATE HANDLING OF THE FIRST THREE "OTHER MEASURES". WE DO NOT HAVE A SYSTEMIC APPROACH TO THESE IMPORTANT OM'S AND UNDERSECRETARY COOPER EXPRESSED A SYMPATHETIC WILLINGNESS TO SEEK WAYS TO FILL THAT NEED. ON THE OTHER HAND, THE FOURTH CATEGORY OF OM (DIVERSIFICATION) IS BEING HANDLED BY PRESENT INTERNATIONAL INSTITUTIONS AND WE HAVE NO EVIDENCE THAT THERE IS ANY MAJOR GAP IN THESE EFFORTS. HE CITED THE WOOL PRODUCERS GROUP AS AN EFFECTIVE ENTITY WHOSE EFFORTS WERE DIRECTED TOWARD MEETING THE NEED FOR OM'S. WITH A MODEST BUDGET, THE WOOL PRODUCERS GROUP HAS PLAYED A VERY USEFUL ROLE IN PROMOTING ITS COMMODITY.

15. UNDERSECRETARY COOPER SAID THAT HE UNDERSTOOD THE PRESENT CONCEPT OF THE SECOND WINDOW AS PROPOSED BY THE G-77 AS BEING INTENDED PRIMARILY AS A NEW INTERNATIONAL FINANCIAL INSTITUTION. IF THIS UNDERSTANDING WAS CORRECT IT POSED A PARTICULAR PROBLEM FOR THE US. THE

USG IS HAVING A VERY DIFFICULT TIME GAINING APPROVAL FOR APPROPRIATIONS OF FUNDS FOR EXISTING IFI'S WHICH HAVE A PROVEN TRACK RECORD. THE CONGRESS HAS EXPRESSED OVER AND OVER AGAIN ITS ANTIPATHY TO PAYING OVER LARGE FUNDS OF MONEY TO OTHERS WHO WOULD THEN HAVE DISCRETION IN APPROVING PROJECTS, ETC. HE EMPHASIZED THAT THIS CONGRESSIONAL ATTITUDE MEANS THAT THERE IS NO PROSPECT FOR A SECOND WINDOW AS A NEW IFI INsofar AS CONFIDENTIAL

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THE USG IS CONCERNED AND, TO THAT EXTENT, THE SECOND WINDOW IS THE ENEMY OF THE FIRST WINDOW.

16. ALATAS REPLIED THAT THE CRUX OF THE CF DISCUSSION WAS WHETHER FINANCING THROUGH A CF MECHANISM WAS NECESSARY AND BENEFICIAL. HE INDICATED THAT THERE WAS NO FINAL AGREEMENT AMONG THE G-77 AS TO THE SCOPE OF OM'S AND HE ASKED WHERE QUESTIONS RELATING TO OM'S SHOULD BE DEFINED AND DECIDED, WHETHER IN THE ICA'S OR IN THE CF. IN CONSIDERING OM'S AND THEIR SCOPE THE G-77 HAVE GIVEN LENGTHY CONSIDERATION TO THE MEASURES NEEDED TO ENHANCE BOTH THE PRODUCTION AND MARKETING OF COMMODITIES. THE G-77 BELIEVE THERE ARE SIGNIFICANT DEFICIENCIES IN THE PRESENT IFI'S IN DEALING WITH COMMODITY PROBLEMS AND THAT AMONG THOSE DEFICIENCIES IS THE STRUCTURE AND ORGANIZATION OF IFI'S WHERE MANY DEVELOPING COUNTRIES ARE LEFT OUT. HE SAID THAT THE VOTING STRUCTURE OF THE IFIS DOES NOT INSPIRE CONFIDENCE AMONG DEVELOPING COUNTRIES. HE ALSO DOES NOT BELIEVE THAT EXISTING IFI'S OR ICA'S COULD PROPERLY COORDINATE A TOTAL COMMODITY APPROACH WHEREAS THE COMMON FUND COULD. HE STRESSED THAT A TOTAL COMMODITY APPROACH INCLUDING A CROSS-COMMODITY VIEWPOINT, AND THAT THIS OVERVIEW, ALONG WITH FINANCING AND COORDINATION, WOULD BE AN IMPORTANT FUNCTION OF THE CF. CERTAIN OM'S ARE NOT AND CANNOT BE ADEQUATELY HANDLED BY THE IFI'S. FURTHERMORE, IF A SECOND WINDOW IS TO BE EFFECTIVE AS A COORDINATOR AND CATALYST, IT MUST HAVE ITS OWN RESOURCES. HE EXPRESSED THE OPINION THAT THE CF COULD NOT GO TO IFIS FOR SUPPORT OF COMMODITY PROJECTS IF THE CF ITSELF WAS NOT A FINANCIAL PARTICIPANT IN THOSE PROJECTS.

17. AT THE SAME TIME, ALATAS INDICATED THAT IN HIS JUDGMENT GROUP B AND G-77 WERE CLOSER IN TERMS OF THE MAGNITUDE OF FINANCIAL COMMITMENTS INVOLVED THAN PAST DISCUSSIONS MIGHT HAVE INDICATED. HE SAID THAT THE

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FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 7261

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EXDIS

FOR UNDERSECRETARY COOPER FROM AMB VANDEN HEUVEL

SECOND WINDOW WAS FREQUENTLY DISMISSED AS AN "AID MECHANISM" BUT HE FELT THIS CHARACTERIZATION WAS UNFAIR. MANY OM'S ARE STABILIZING MEASURES, SOME WILL BE PART OF CONCESSIONARY ASSISTANCE PROGRAMS, BUT THE G-77 DOES NOT THINK OF THE SECOND WINDOW AS PRIMARILY AN AID MECHANISM. HE UNDERSTOOD THE PROBLEM IN THE US CONGRESS. HE SUGGESTED THAT ONE OF THE IMPORTANT ROLES THAT WOULD BE PLAYED BY A SECOND WINDOW AND THE CF GENERALLY WOULD RELATE TO COMMODITIES WHERE INDIVIDUAL ICA'S HAD NOT YET BEEN CONCLUDED. THERE WOULD BE MANY THINGS THAT COULD BE DONE, BOTH IN ENCOURAGING THE NEGOTIATIONS TOWARD AN ICA AND IN ASSISTING PRODUCERS/CONSUMERS IN COMMODITY-RELATED PROBLEMS BEFORE THE ICA WAS CONCLUDED. HE CONFIRMED WHAT SEVERAL OTHER G-77 PARTICIPANTS INDICATED BY SAYING THAT HE WELCOMED THE STATEMENT THAT THE US WAS NOT HOSTILE TO OTHER MEASURES AND THAT ITS PROBLEM PRIMARILY WAS RELATED TO A DEFINITION OF THE SECOND WINDOW WHICH WOULD IMPLY THE CREATION OF A NEW IFI.

18. FROMENT-MEURICE ASKED WHERE THE DECISIONS WOULD BE MADE RELATING TO OM'S. HE EXPRESSED THE OPINION THAT
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SUCH DECISIONS SHOULD BE MADE BY THE ICA'S. HE ALSO SAID HE HAD DIFFICULTY IN UNDERSTANDING THE CROSS-COM-MODITY CONCEPT WHICH ALATAS HAD MENTIONED. HE DID NOT SEE THE NEED FOR A "SUPER BODY" TO DECIDE, DEFINE AND INTERVENE IN THESE PROBLEMS. ALATAS REPLIED BY SAYING

THAT HE THOUGHT THE OM'S IN THE FIRST THREE CATEGORIES DESCRIBED BY UNDERSECRETARY COOPER SHOULD PROBABLY BE DEFINED AND DECIDED BY THE INDIVIDUAL ICA'S.

19. UNDERSECRETARY COOPER THEN ASKED WHAT ALATAS MEANT BY COMMODITY PROBLEMS OUTSIDE OF AN ICA. ALATAS GAVE A HYPOTHETICAL EXAMPLE IN WHICH INTERNATIONAL COTTON PRICES FELL DRASTICALLY AND A COUNTRY LIKE SUDAN WAS BADLY AFFECTED. HE SUGGESTED THAT IN SUCH A SITUATION SUDAN MIGHT THEN APPLY TO THE CF FOR A LOAN TO STOCK COTTON. THE CF WOULD THEN CONSIDER THE PROBLEMS CAUSING THE UNSETTLED CONDITION IN THE COTTON MARKET, MEANWHILE HELPING TO FINANCE SUDAN'S IMMEDIATE PROBLEM AND ASSISTING IT IN GOING TO OTHER IFI'S. STEEG ASKED WHY IN SUCH A SITUATION THE SUDAN DID NOT GO TO THE IMF WHICH IS ORGANIZED TO HANDLE PROBLEMS OF THIS PRECISE NATURE. ALATAS REPLIED THAT THE IMF WOULD HANDLE THE FINANCIAL EMERGENCY BUT IT WOULD NOT DEAL WITH THE BASIC PROBLEMS THAT WERE UNSETTLING THE COTTON COMMODITY MARKET.

20. KUMAR ASKED WHETHER THE U.S. DEFINITION OF OM'S INCLUDED VERTICAL DIVERSIFICATION. USING THE COMMODITY OF TEA AS AN EXAMPLE, HE THOUGHT OM'S SHOULD INCLUDE SUCH ASSISTANCE AS IMPROVED PACKAGING OR MANUFACTURING TEABAGS, ETC. UNDERSECRETARY COOPER INDICATED THAT THE QUESTION IMPLIED THAT OM'S WOULD INCLUDE MANUFACTURING PROCESS IMPROVEMENTS AND THAT HE, FOR ONE, HAD NOT

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UNDERSTOOD BEFORE THAT THE G-77 PROPOSAL HAD ENVISAGED THIS. HE FELT THAT SUCH "VERTICAL DIVERSIFICATION" WOULD FALL WITHIN A GENERAL DEVELOPMENT ASSISTANCE CATEGORY. AFTER HEARING THIS POSSIBLE DEFINITION OF OM'S, SEVERAL GROUP B PARTICIPANTS EXPRESSED PESSIMISM ABOUT THE PROSPECTS FOR A CF.

21. MLIKA SUGGESTED A DIFFERENT ROLE FOR CF AND ITS SECOND WINDOW. USING THE EXAMPLE OF SISAL WHERE AN ICA DID NOT EXIST, HE FELT THAT THE CF COULD PLAY A LEADERSHIP ROLE IN STABILIZING THE COMMODITY. HE CITED THE AVAILABILITY OF STABEX FINANCING TO AFRICAN SISAL-PRODUCING COUNTRIES IN THE EVENT OF A SIGNIFICANT PRICE DROP. BUT HE POINTED OUT THAT THE RECIPIENT COUNTRIES WERE NOT OBLIGED TO USE SUCH STABEX FUNDS FOR PURPOSES RELATED TO SISAL OR IN STABILIZING THE SISAL MARKET. WHEN QUERIED AS TO WHAT THE CF COULD DO IN SUCH A SITUATION AFFECTING SISAL, ALATAS REPLIED THAT IT COULD ANALYZE THE "ILLNESS" OF THE COMMODITY AND INFLUENCE THE RELEVANT GOVERNMENTS

TO SPEND FUNDS SUCH AS THE STABEX FUNDS IN A PATTERN
THAT WOULD BE CONSISTENT WITH COMMODITY STABILIZATION.

22. MIYAZAKI REFERRED TO THE PREVIOUS DISCUSSION RELATING TO COTTON AND ASKED WHAT THE CF COULD DO TO INFLUENCE SUCH A CRISIS IF IN FACT AN ICA IN COTTON HAD PROVEN NON-NEGOTIABLE. ALATAS URGED THE GROUP B PARTICIPANTS NOT TO USE THE ARGUMENT THAT A CF INTERVENTION TO STABILIZE COTTON WOULD REQUIRE ENORMOUS FUNDS. HE SUGGESTED THAT THE CF WOULD BE ABLE TO LOOK AT THE GENERAL COMMODITY PROBLEM AND SUGGEST SOLUTIONS. A CF ROLE PROVIDING FOCUS AND PRESSURE IN COMMODITY DISCUSSIONS COULD BE A VERY AFFIRMATIVE CONTRIBUTION. FOR THE FIRST TIME WE WOULD HAVE AN INTERNATIONAL INSTITUTION THAT WOULD BE CONCERNED WITH COMMODITIES AND

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O 151821Z MAR 78
FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 7262

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FOR UNDERSECRETARY COOPER FROM AMB VANDEN HEUVEL

WOULD BE ABLE TO TAKE A GLOBAL LOOK AT COMMODITY PROBLEMS.

23. STEELE SAID HE COULD NOT CONCEIVE A POSSIBLE ROLE FOR THE CF IN THE CROSS-COMMODITY FIELDS. THE EXAMPLE OF THE WORLD BANK'S ENCOURAGING TEA PRODUCTION BY KENYA WAS DISCUSSED GENERALLY AND UNDERSECRETARY COOPER POINTED OUT HOW THIS HAD ADVERSELY AFFECTED SRI LANKA'S EXPORTS OF TEA. THE IFIS THAT ENCOURAGED KENYA TO BECOME A PRODUCER SHOULD ALSO HAVE ASSISTED SRI LANKA IN HANDLING THE LOSS OF REVENUE. ALATAS SAID THAT A SECOND WINDOW WOULD HAVE LOOKED AT THE PROJECT PROPOSAL FOR TEA GROWING IN KENYA AND, AFTER A DIALOGUE WITH TEAGROWERS AND CONSUMERS, COULD HAVE GIVEN APPROPRIATE ADVICE. THE DEVELOPING COUNTRIES WOULD WELCOME SUCH

A ROLE. SUCH ADVICE WOULD NOT INVOLVE MANDATORY INSTRUCTION BUT WOULD PROVIDE A GOOD OPPORTUNITY FOR CONSTRUCTIVE DIALOGUE. UNDERSECRETARY COOPER AND STEEG MADE IT CLEAR THAT THIS KIND OF CROSS-COMMODITY INTER-FERENCE WAS AN EXTREMELY DANGEROUS CONCEPT. IT WOULD BE SEEN AS AN ATTEMPT TO CARTELIZE COMMODITY PRODUCTION AND IMPROPERLY INTERFERE WITH THOSE COUNTRIES OR ENTITIES CONSIDERING ENTRY INTO A COMMODITY FIELD AS NEW, COMPETITIVE PRODUCERS.
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24. KLINKENBERGH POINTED OUT THAT UNDER THE GROUP B PROPOSAL THE MFR IS CLEARLY DEFINED. HE WONDERED WHETHER A PERCENTAGE OF THE DEPOSITS COULD BE ASSIGNED TO THE SECOND WINDOW FOR ALL OF ITS TASKS. HE ALSO SUGGESTED THAT WE CONSIDER WHETHER THE EARNINGS ON THE MFR DEPOSITS MIGHT NOT BE DIVERTED TO THE SECOND WINDOW. ALATAS SAID THAT G-77 IS PREPARED TO DISCUSS ALL OF THE ASPECTS RELATING TO OMS, INCLUDING THE KIND, THE SIZE, AND THE SOURCE OF FUNDS. HE SUGGESTED THAT IF THERE WAS AN AGREEMENT ON THE CAPITAL STRUCTURE OF THE CF, IT SHOULD BE POSSIBLE TO REACH AGREEMENT ALSO AS TO WHETHER A PERCENTAGE COULD BE ASSIGNED TO THE SECOND WINDOW IN ADDITION TO ALLOWING VOLUNTARY CONTRIBUTIONS. THE PARTICIPANTS FROM THE U.S., FRG AND FRANCE MADE IT CLEAR THAT ANY CONCEPT WHICH INCLUDED MANDATORY CONTRIBUTIONS TO THE SECOND WINDOW WOULD BE UNACCEPTABLE. FROMENT-MEURICE THOUGHT, HOWEVER, THAT THE ADMINISTRATIVE COSTS OF BOTH THE FIRST AND SECOND WINDOW COULD BE COVERED BY ASSESSMENT.

25. COREA SOUGHT CLARIFICATION OF THE GROUP B PROPOSAL ASKING WHETHER THE INTENTION WAS THAT THE INDIVIDUAL ICA'S WOULD PROVIDE THE FINANCING FOR OM'S. UNDER-SECRETARY COOPER AND STEEG BOTH RESPONDED AFFIRMATIVELY TO THAT INTERPRETATION. STEEG SAID THAT SHE SEES THE FINANCING OF OM'S AS BEING WHOLLY WITHIN THE ICA'S. FROMENT-MEURICE SAID THAT HE COULD ENVISAGE A SECOND WINDOW IF: (1) IT WERE AGREED THAT OM'S WOULD BE FINANCED EXCLUSIVELY WITHIN EXISTING ICA'S OR OTHER AGREED PRODUCER/CONSUMER ARRANGEMENTS; (2) ASSESSED FUNDS WOULD GO TO THE CF ONLY FOR ADMINISTRATIVE COSTS, INCLUDING ADMINISTRATIVE COSTS FOR THE SECOND WINDOW.
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HE ALSO EXPRESSED THE VIEW THAT THE SECOND WINDOW COULD ACCEPT VOLUNTARY CONTRIBUTIONS.

26. MLOKA ASKED WHY THERE SHOULD BE ANY OBJECTION TO VOLUNTARY CONTRIBUTIONS OUTSIDE OF ICA'S. AS AN EXAMPLE HE AGAIN CITED THE COMMODITY OF SISAL WHERE NO ICA EXISTS, BUT WHERE SOME GOVERNMENTS MIGHT BE WILLING TO MAKE VOLUNTARY CONTRIBUTIONS FOR OM'S RELATING TO SISAL.

27. ALATAS SAID THAT IT WAS INCUMBENT UPON THE INTERESTED COUNTRIES TO CONSIDER THE RELATIONSHIPS OF THE CF TO THE ICAS. HE INDICATED THAT ALL OF US MIGHT AGREE ON THE AUTONOMY OF THE ICAS AND THAT THE CF SHOULD NOT INTERFERE WITH SUBSTANTIVE DECISIONS WITHIN THE PURVIEW OF AN ICA. FROMENT-MEURICE THEN ASKED, IF THERE WAS AN ICA FOR EACH COMMODITY, WOULD YOU STILL NEED FUNDS IN THE CF FOR OM'S? ALATAS TENTATIVELY REPLIED IN THE AFFIRMATIVE. HE SAID THAT APPARENTLY GROUP B BELIEVES THAT OM'S SHOULD BE FUNDED ENTIRELY WITHIN THE ICA'S, BUT THAT THE G-77 WANTS A FUND-RAISING CAPACITY WITHIN THE CF TO FINANCE OM'S OUTSIDE ICA'S IF NECESSARY. AFTER FURTHER DISCUSSION ALATAS CONCEDED THAT A SECOND WINDOW WOULD NOT BE NECESSARY IF ALL COMMODITIES HAD ICA'S THAT PROVIDED FOR OM'S. SEVERAL GROUP B PARTICIPANTS SAID THAT THEY COULD SEE A ROLE FOR THE CF IN OM'S FOR SOME COMMODITIES. FOR EXAMPLE, ON COMMODITIES WHERE THERE WERE A NUMBER OF SMALL PRODUCERS OR WHERE THE PRODUCERS WERE VERY WEAK FINANCIALLY OR WHERE A COUNTRY LIKE THE U.S. WAS NOT IN AN INDIVIDUAL ICA, CONTRIBUTIONS TO THE CF FOR OM'S MIGHT THEN BE WARRANTED.

28. AS THE MEETING ENDED SEVERAL GROUP B PARTICIPANTS MADE IT CLEAR THAT ANY OM PROPOSALS MUST BE FINITE AND

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----123721 151929Z /42
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FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 7263

C O N F I D E N T I A L SECTION 06 OF 06 GENEVA 04040

EXDIS

FOR UNDERSECRETARY COOPER FROM AMB VANDEN HEUVEL

PRECISE, AND THAT THERE COULD BE NO FUND DISBURSING
FUNCTION IN THE SECOND WINDOW EXCEPT FOR LIMITED
ADMINISTRATIVE PURPOSES OR FOR THE LIMITED RESPONSIBILITY
IT MIGHT HAVE BECAUSE OF VOLUNTARY CONTRIBUTIONS. THE
MEETING ADJOURNED AT 12:30 P.M. VANDEN HEUVEL

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FUND ALLOTMENT, AGREEMENT DRAFT
Control Number: n/a
Copy: SINGLE
Draft Date: 15 mar 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978GENEVA04040
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780115-0759
Format: TEL
From: GENEVA
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Original Handling Restrictions: EXDIS
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Page Count: 13
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
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Retention: 0
Review Action: RELEASED, APPROVED
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3327681
Secure: OPEN
Status: NATIVE
Subject: UNCTAD - COMMON FUND
TAGS: ETRD, UNCTAD
To: STATE
Type: TE
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Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014